WBC

Morison KSi
Independent member

CORPORATE GOVERNANCE

Preface

Corporate governance is an area you can hardly ignore as your organisation expands. Occasionally we learn from news about corporate scandals resulting in huge financial loss, both tangible and intangible, wiping out effort and images overnight the companies have established over the years. It is much more devastating than you can imagine.

What Is Corporate Governance?

You may have heard some synonyms of corporate governance in the commercial world, such as enterprise risk management, risk mitigation measures, internal controls, Sarbanes Oxley Act (SOX), compliance, just to name a few. All these describe corporate governance in certain ways, but generally it can be defined as “activities undertaken to avoid risk occurrences”.

Corporate governance covers compliance with industry specific regulations and operating guidelines, which can be driven externally and internally. External compliance includes corporate governance of listing requirements, GMP, FDA, SOX, etc. whereas internal compliance includes corporate governance of internal policies, ISO, Standard Operating Procedures (SOPs) with roles and responsibilities properly defined, etc.

Corporate Governance Dampens Profitability?

A simple way to describe how corporate governance works is similar to insurance. Certain amount of premium is paid to cover the risk of having potential financial loss resulting from any unpredictable accidents that are "likely" to happen. "Probability" is mentioned here, which is the main reason why companies are not looking into corporate governance seriously.

Nevertheless, similar to insurance, one occurrence can cause a lethal impact on business. For instance, control loopholes causing asset misappropriation, or corporate scandal cases such as reveals of graft and corruption activities, or ineffective quality management system resulting in product recalls, and many more can bring the entire company into disastrous state, having to pay thousand or even million dollars of penalty and compensation. In other words, the financial loss due to failure in implementing effective corporate governance can be equivalent to revenue or profit accumulated over past few years.

Benefits of Corporate Governance

The benefit of having corporate governance implemented is invisible in the short run, and will only be surfaced up when you sustain company's profitability in the long run.

- *Focus on the core business:*
  Most owners or leaders of the organisations wants to put their focus on the core – sales expansion and marketing strategies, which are more dynamic and <u>uncertain</u> to manage, and do not want to be distracted by back office

management whose resolutions normally follow some fixed and certain patterns. Corporate governance serves this purpose and minimizes the number of surprises from back office management in your operations.

- *Increase in employee engagement level improving work efficiency:*
  One of corporate governance's task is to clearly define roles and responsibilities of office bearers. It provides clearer guidelines, areas of responsibilities and accountability for employees, thus reducing employee's ill-feeling caused by confusion over roles and responsibilities. Employee morale is better kept and less employee turnover is expected.

- *Better safeguard shareholders' wealth and lower cost of capital:*
  Opportunities are awarded to those who are ready. Corporate governance is part of the readiness assessment people will look into in any major company ventures, such as public listing, merger and acquisition, or even fund raising activities, regardless of public or private companies. Apart from the insurance concept to better protect profitability of the company, having better corporate governance will help your company get ready for any business opportunities arising anytime without having to do last minute compliance clean-up.

Best Practices of Corporate Governance

Corporate governance should be built along the way as the company expands. However, companies should also be cautious about over-building it resulting in bureaucracy. The best practice is the corporate governance with lean office processes, without impacting company's operating efficiency.

About Wesley Business Consulting (WBC)

WBC, a division of Morison Consulting (Morison KSi), is a business and management consulting company headquartered in Singapore. We understand both eastern and western management cultures and our services cover Asia Pacific markets such as Japan, China, Taiwan, Singapore, Malaysia and so on. We also provide consultancy services to US and Europe MNCs. For more information, please find us at: www.wesleybc.com.

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If you need any assistance on corporate governance, please e-mail us at client.services@wesleybc.com or call us at +65 87999696. We will get back to you shortly.

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